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INTELLIGENCE REPORT

THE SITUATION IN SOUTH VIETNAM

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

THE SITUATION IN SOUTH VIETNAM
(12 September - 18 September 1966)

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I. POLITICAL SITUATION

In the wake of the election for a constituent assembly, there was somewhat of a slackening in the pace of political activity. There were some indications that Deputy Premier Co and IV Corps commander Quang might be replaced in the near future. The policy and leadership of the Buddhist Institute was also in a state of flux following the unsuccessful election boycott led by militant Buddhists.

Possible High-Level Replacements

1. Now that the constituent assembly election is over, the long-rumored replacement of Deputy Premier Co and IV Corps commander Quang may take place in the near future. According to a Vietnamese general officer, Premier Ky recently confronted General Co with the accusation that Co was planning a coup supported by two currently unassigned generals. Coup rumors were circulating in the capital just prior to the 11 September election, but it is not clear whether they had any validity or whether they were spread by Ky's supporters to lay the groundwork for a future move against Co. According to the same source, Premier Ky reportedly stated earlier this month that he had proof of plotting against the government by IV Corps Commander Quang.

2. Speculation concerning the removal of Co and Quang was rife in late July and early August. A high-ranking source close to Premier Ky stated in early August that action would be taken against Co and Quang "when the time was right"--a probable reference to the postelection period.

Buddhist Activities

3. Following an unsuccessful election boycott led by militant Buddhists, the leadership and policy of the Buddhist Institute is once more in flux.

After a leave of absence for some two months, moderate Institute chairman Thich Tam Chau returned to Saigon on 15 September to resume active Institute leadership, which has been exercised in his absence by an acting chairman and a council majority of militants close to Tri Quang. Chau, who publicly opposed the official Buddhist election boycott, plans to attempt to resolve differences between the Buddhist leadership and the government, re-occupy the Institute premises which have remained vacant since the raid by government troops in July, and finally to ask for the release of "struggle" prisoners still under detention.

4. However, the militant council majority, still apparently more responsive to the influence of Tri Quang, showed no sign of relenting in their opposition to the government last week. Acting Institute chairman Thich Thien Hoa declared his lack of faith in the newly elected constituent assembly in a public letter to the government on 15 September. The next day, militant Tri Quang announced the ending of his fast of more than three months but stressed that this by no means signified the end of his opposition to the Ky government. The announcement followed an order from the church's supreme aged patriarch to Quang that he cease his hunger strike. In a later open letter, Quang again went on record against the present military government and further accused the US Government of intending to kill off the Buddhist leadership.

5. On the government side, there is no clear indication of any intent to release the "struggle" prisoners, which is the major issue remaining between the government and moderate Buddhists, in the near future. The government may, however, release at least some of the Buddhist prisoners in conjunction with the probable release of a number of Catholics held since the overthrow of the Diem regime. In view of his pro-election broadcast on 11 September, it is also possible that Tam Chau may have reached some kind of understanding with the government.

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6. However, it is more doubtful that Tam Chau will be able to deal successfully with the Institute militants. The US Embassy has concluded that a formal split in the United Buddhist Association would be preferable to heavy militant pressures on Tam Chau with the Institute likely thus to come under the control of the militants whenever a problem arose.

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II. REVOLUTIONARY DEVELOPMENT

There has been considerable optimism lately that the "military" war is going well for the GVN. Recent severe economic measures by the Saigon regime, moreover, seem to have checked the prospect of rampant inflation for the time being. The GVN's ability to cope with other incidental problems, such as Saigon port congestion, at the advice of the United States, is also cause for elation. The recent successful election of a national constituent assembly, in addition, is also a solid step toward the establishment of representative national government. Only the "pacification" of the rural populace does not seem to have kept pace with the other encouraging developments.

The following discussion is offered as at least a partial explanation of the slow pace of pacification.

Target and Purpose

1. The main pacification target at present is the approximately 7 million rural people who do not live in the urban areas or in the GVN-controlled rural areas (technically referred to as the "secure" hamlets.) The end object of pacification, when shorn of the trimmings, is simply the satisfaction of the basic aspirations of these 7 million people. The most important basic aspirations--physical security, more income, low or stable cost of living, land reform, and representative government--are largely the same in South Vietnam as in any developing country. The progress that is being made in revolutionary development must ultimately satisfy most of these desires. A heavy and primary emphasis must be placed on the provision of physical security, after which the other desires can then be cared for.

Security

2. The overall provision of physical security for the average hamlet dweller has not improved appreciably. The local security situation has, however, undergone numerous drastic alterations, some of them for the better and some for the worse. It is safe to assume that the peasantry, or Mao Tsetung's "sea," has recently seen and felt more of the war in their hamlets and rice paddies than at any time in the last 12 years. The flow of over 1 million "registered" refugees from war areas to the urban fringes since mid-1964 is a living testimonial to this. It is the rural peoples more than any other sector of the civilian population that have to bear the burden of the conflict. The influx of approximately 400,000 non-South Vietnamese into the country in the last three years has seriously disrupted the social, economic, and local political structure of the bulk of the population.

3. An examination of the allied force structure of over 1 million persons reveals that a relatively small percentage of them are tasked with providing permanent daily security for the villagers. Basically, this is the job of the more than 300,000 South Vietnamese "paramilitary" troops. Most of these troops, however, are utilized to guard key military installations, logistic depots, and urban centers or to react to small Viet Cong-initiated actions. Of this rather large "paramilitary" contingent, approximately 125,000 (present-for-duty in May 1966) are Popular Forces, on whom the responsibility of hamlet and village security falls. There are a number of problems, however, which tend to mitigate their effectiveness. The Popular Forces suffer more killed than any other allied military organization, including the ARVN. They also have the highest desertion rate. The number of them available for hamlet security is further lessened by the proclivity of the provincial and district military commanders to utilize them often for static guard (non-hamlet) duties, much the same as the Regional Forces.

4. The only organization tasked solely with the specialized function of implementing the rural pacification effort is the Ministry of Revolutionary Development, with approximately 30,000 field cadres. About 25,000 of these perform a primary hamlet security and defense role. The dangerous burden of local security also falls on the National Police. However, of the roughly 50,000 police, less than half are assigned to the provinces, the rest performing duties in and around Saigon or in training centers. Of the police in the provinces, most of them are located in the province capitals. In reality, the number actually performing services for the rural populace is quite small.

5. In contrast, the number of Viet Cong "irregulars," independent of Viet Cong regulars and North Vietnamese soldiers, is at least 100,000, and there is strong evidence that there may be as many as 250,000 such irregulars.

6. By totaling the Popular Forces, the cadres, and possibly 15,000 National Police, the number available for hamlet security duties is about 170,000. It is possible, then, that the Viet Cong "irregulars" are strong enough numerically to match the GVN hamlet security forces man for man. Viewed in this context, then, the personnel available to satisfy one of the peasants' basic aspirations, physical security, is woefully inadequate.

Economic

7. The economic situation of the average hamlet dweller has clearly become more severe in the recent period. In spite of the government measures designed to stabilize the economy, the rural populace has experienced a continuous rise in the cost of living without a concomitant rise in wages or purchasing power. This situation is liable to prevail for some time. Even if the cost of living and the working class consumer price index does stabilize at its present level, they are still too high to satisfy the financial needs of the peasantry.

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8. One of the measures that accompanied the devaluation of the piaster, a 20-30 percent wage hike for civil servants and military personnel, is expected to have little, if any, effect on the villagers. Although the devaluation measures are also effective outside of the Saigon area, other just as meaningful economic areas of interest to the villagers are the local marketing facilities and the intraprovince transportation facilities. The Viet Cong grip on both is quite strong in many areas. The importance of open lines of communication can be illustrated by the wildly fluctuating price of pork in Saigon during the past two months. The simple destruction of one bridge between Saigon and the delta during the recent election period resulted in a drastic temporary price rise in the Saigon market. (See Economic Developments section)

9. The Viet Cong brand of economic warfare has been annoyingly successful. The marketing of foodstuffs by South Vietnamese villagers within a province is precarious and very often subject to taxation based upon the farmer's annual income or rice yield. Foodstuffs marketed between provinces and to the Saigon market are heavily taxed if the line of communication happens to be open. Only about 40 percent of the country's road network is considered secure enough to travel without constant military protection. The Viet Cong interdiction of the roads and railways has had an extremely deleterious effect on the cost of living to the peasantry. The enemy's campaign to interrupt the once extensive rice production for urban and overseas markets has been so successful that South Vietnam will soon be importing 500,000 tons of rice for its own consumption, whereas only a few years ago it exported rice.

Land Reform

10. The average hamlet dweller does not yet have sufficient opportunity to own his farmland. By and large, absentee landlordism still prevails. Since nearly all of the rural populace is engaged

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in farming, with a small number working in fishing, forestry, and mining, the peoples' desire to own property is substantial. Some expropriated land has been distributed and the issuance of land titles is gathering momentum, although there is still a long way to go.

11. The Viet Cong fully recognize the importance of land and agrarian reform, although they have been somewhat slow and irregular in granting meaningful concessions to the villagers under their nominal control. They have been relatively successful, however, in exploiting the issue to the detriment of the government in propaganda.

Representative Government

12. The average hamlet dweller does not yet have representative governmental institutions. Even the promulgation of a constitution, the possible election of a legislature, and the election of a president or the appointment of some other executive body during the next year will not provide meaningful forms of government to the villagers. Those measures should go a long way in providing a democratic framework for the legislation and execution of representative national policy. However, the peasant does not see much further than his local hamlet or village. Although in many areas there are elected hamlet and village chiefs and representative local councils to whom the local populace can turn, these village chiefs cannot in turn realistically appeal to the next higher echelon.

13. The key government representatives in the provinces are, primarily, the chief of province and the district chiefs. These are nearly all military appointees. It would seem practical, in time of war, that this should be the case. However, the inequities of the military governor are well known in spite of the seeming practicality of the arrangement. Until the province, district, village, and hamlet chiefs can be elected, it is doubtful that the peasantry will have the necessary channels through which they can ultimately identify with their nation and government.

III. ECONOMIC SITUATION

Saigon retail prices were generally stable or slightly lower in the week ending 6 September, but rose sharply during the following week primarily as a result of shortages caused by Viet Cong activities during the election weekend. During the week ending 12 September the over-all USAID retail price index increased 16 percent and food prices were up 21 percent. It is expected that this recent upsurge in prices will be short-lived since efforts are being made to restore supplies. Prices of imported commodities showed mixed trends in the week ending 6 September. About half the items sampled were moderately higher; these prices were generally unchanged or slightly lower on 12 September. During the week ending 6 September the price of dollars on the Saigon free market fluctuated around 166 piasters, the rate of the previous week, and gold rose slightly--reputedly because of pre-election uncertainties. These rates showed little change during the following week.

The first of a series of US-GVN meetings on the economic situation centered primarily on topics of a technical nature; the US Embassy hopes to gradually upgrade the level of discussion at future meetings. A uniform pay and classification system for Vietnamese employees of US agencies and contractors has been adopted by the US Mission Council.

Prices

1. Saigon retail prices were generally stable or slightly lower in the week ending 6 September, but rose sharply during the following week. On 6 September the over-all USAID retail price index was two percent below the previous week primarily because of lower food prices. Pork and rice prices continued to fall as deliveries to Saigon increased. The

price of chicken, which had risen sharply the week before because of holiday purchases, moved down again.

2. During the week ending 12 September, however, the over-all USAID retail price index increased 16 percent with food up 21 percent and nonfood up one percent. Higher food prices were caused by Viet Cong destruction of bridges connecting Saigon with the agricultural areas of the Mekong Delta. Hog arrivals ceased during the election weekend of 10-11 September, and pork prices soared to a new high. (See paragraph 6). Higher pork prices drove up the prices of other protein foods. This recent upsurge in prices is expected to be short-lived since efforts are being made to restore supplies. (A table of weekly retail prices in Saigon is included in the Annex).

3. Prices of imported commodities showed mixed trends in the week ending 6 September with higher prices for nine items, lower prices for five, and seven unchanged. With a decline in stocks of galvanized sheet, prices of this imported product rose 10 to 15 percent. Wheat flour, some types of fertilizer, rayon yarn, and newsprint also were higher. USAID believes these increases may have resulted from the anticipation by importers of a continued port bottleneck and also from the nonavailability of credit. During the following week prices of imported goods were generally unchanged or slightly lower.

Currency and Gold

4. The price of dollars fluctuated slightly around 166 piasters on the Saigon free market during the week ending 6 September. Gold, on the other hand, rose 12 piasters to 249 piasters--seven piasters above the official rate of 242 piasters--reportedly because of pre-election uncertainties. With this price rise, speculators resumed gold purchases, but wide fluctuations in the price of gold are not anticipated. MPC (Scrip) continued to move down; the rate on 6 September was 113 piasters compared with an official rate of 118. In Hong Kong, the piaster-dollar cross rate was 177 piasters per dollar on 6 September, about the same as the preceding week.

5. These rates changed little by 12 September, when prices of dollars and gold were 170 and 252 piasters, respectively. MPC (scrip) moved up two piasters to 115 and the piaster-dollar cross rate in Hong Kong fell from 177 to 172 piasters. (Graphics on monthly and weekly free market gold and currency prices are included in the Annex.)

Pork Problems Again

6. Deliveries of hogs to Saigon ceased during the weekend of 10-11 September because of Viet Cong destruction of several bridges and threats of interdiction. It had been reported in late August that the Viet Cong might attempt to disrupt the 11 September elections by cutting off shipments of hogs and other commodities from the countryside. On 12 September the price of pork bellies was 180 piasters per kilogram--the highest price ever reached--compared with 80 piasters on 6 September. This shortage of pork has driven up the prices of other protein foods. The sudden rise in the price of pork is considered to be temporary, however, pending repair of damaged bridges between Saigon and the Delta. Deliveries of hogs had been running well in recent weeks, and the normal consumption of the Saigon area was being met. Almost 13,000 hogs arrived in Saigon during the period 25 to 31 August, and deliveries rose to more than 14,000 between 1 and 9 September, compared with a weekly level of only 3,500 to 4,500 last July when the pork crisis first developed.

US-GVN Economic Discussions

7. The first of a series of US-GVN meetings on the economic situation was held on 2 September under the joint chairmanship of Minister of Economy Thanh and US Assistant Deputy Ambassador Koren. Discussions at this first plenary meeting covered several topics of a rather technical nature. Thanh used the occasion to point out that although efficient operations are an important factor in a war situation, political and legal considerations--i.e., Vietnamese sovereignty--cannot be neglected. Specifically, Thanh was distressed by reports that the US had signed contracts with foreign companies for third country nationals without consulting the GVN. Similarly,

Thanh complained that the GVN had not been consulted on a program drawn up by the Department of Defense for reducing the inflationary impact of military personnel spending in Vietnam. In response, the US reaffirmed its intent to respect Vietnamese sovereignty and promised to check into these complaints.

8. The group also discussed the port situation. Thanh maintained that the Saigon port authority needs more equipment to increase the rate of discharge. When the US pointed out that the heart of the port problem is the slow rate at which importers are removing commodities, Thanh ended the discussion. The US gave a rundown on other commercial port development projects which appeared to satisfy Thanh. The latter then raised the possibility of a port being constructed in the Mekong Delta for long-run development of that area. Both sides agreed that navigational problems would require a serious survey for such a project.

9. Next on the agenda was the problem of procedural difficulties in implementing the commercial import program. Thanh complained that Vietnamese importers could not fathom the Office of Small Business requirements of AID and requested a grace period of a few more months. The US refused and pointed out that USAID now is better prepared to assist importers on these regulations.

10. The general impression of the US Embassy is that representation of both the US and GVN at this type of forum should be smaller and the subjects should be limited to broader economic topics such as GVN budget review or use of GVN foreign exchange holdings. An effort will be made by the US to gradually upgrade the level of discussion. In addition, the Embassy feels that these meetings may serve the useful purpose of improving communications within the GVN.

Wages

11. In order to move toward uniform personnel regulations for all US agencies and US contractors, the US Mission Council has adopted a single pay and classification system applicable to almost all

Vietnamese employees of US civilian and military agencies and their contractors and subcontractors. The standard pay schedule adopted is the US forces pay schedule as authorized last May. According to US Mission estimates, adoption of this uniform pay schedule will result in an average wage increase of roughly 10 percent.

12. Adoption of the new pay schedule is subject to consultation with Minister of Economy Thanh who reportedly has some objections to the proposal. The US Mission plans to point out the advantages of the proposal to Thanh. For the first time there will be a clear limit--which can be enforced by the Mission--on wages. Presently, there are so many deviations from the schedule that contractors find themselves under pressure to raise wages. Secondly, the modest upward adjustment under the schedule will bring various pay scales in line with each other and thus dampen widespread employee discontent which results from variations in wages.

13. According to the Mission, the inflationary impact of the uniform pay schedule will be much less than that resulting from the rapidly mounting number of new employees. Although RMK-BRJ is cutting back, hiring by other US contractors and military and civilian agencies continues to grow. The Mission feels that the best anti-inflationary strategy is to keep both pay rates and new employees down to reasonable limits.

ANNEX

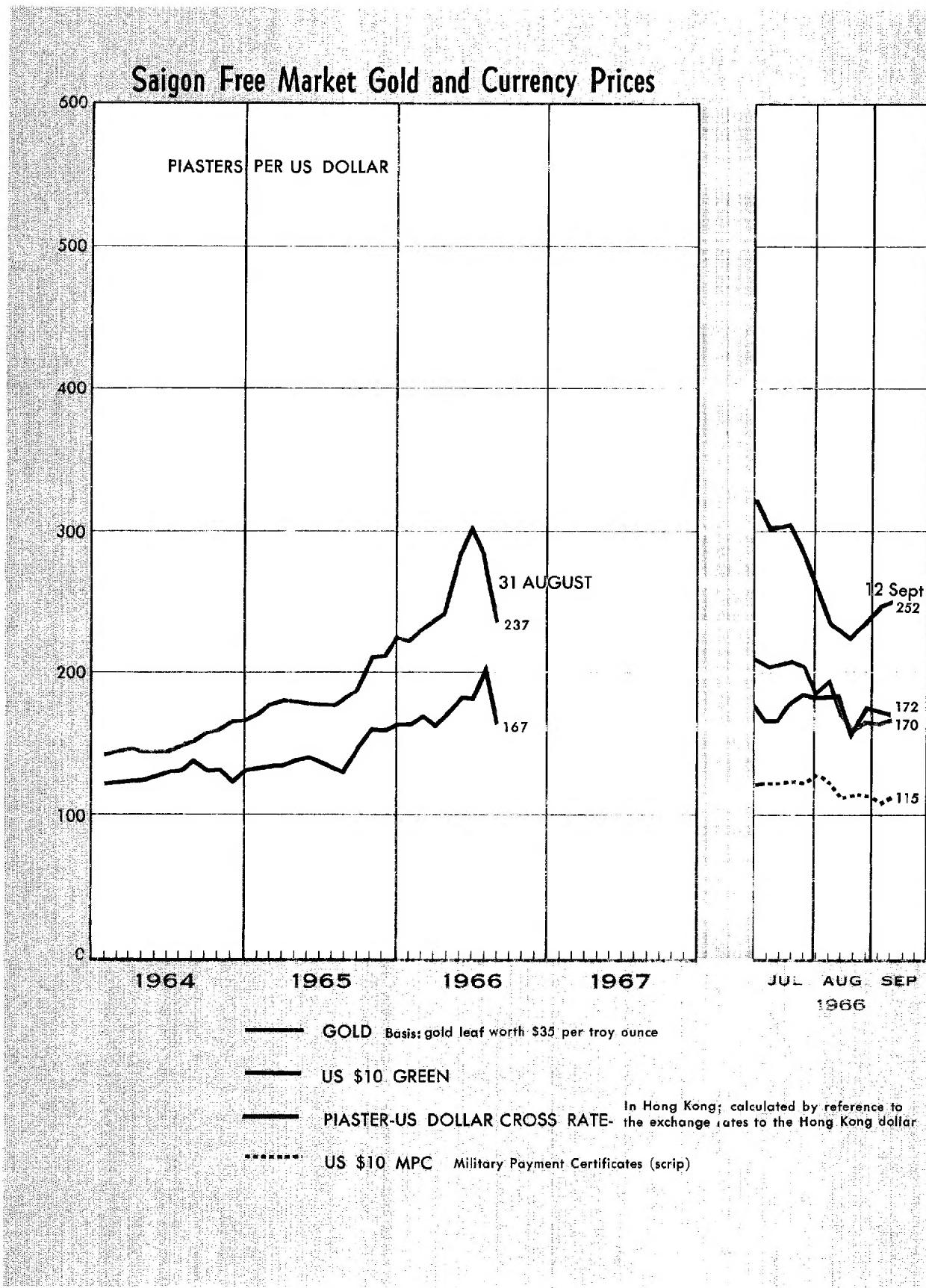
TABLE

Weekly Retail Prices in Saigon a/
(In Piasters)

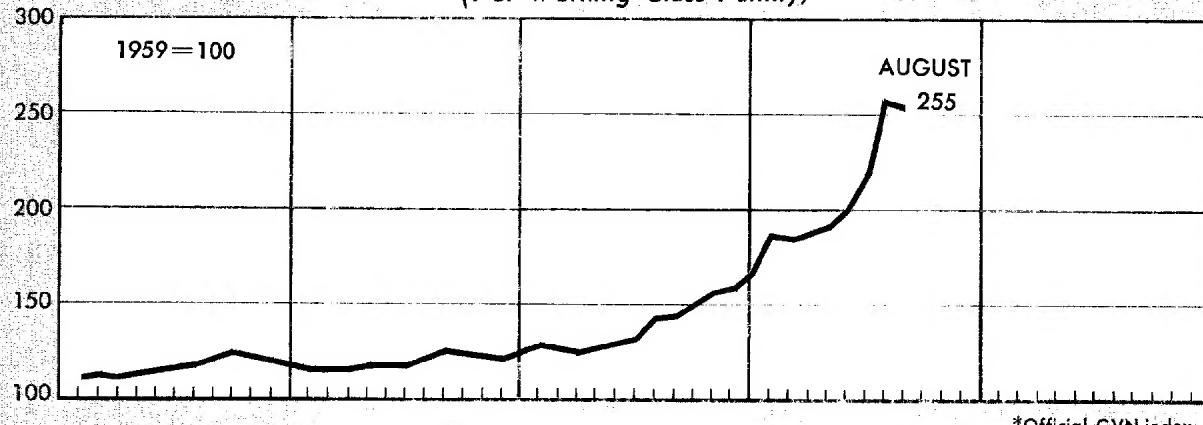
	3 Jan 1966	16 Aug 1966	22 Aug 1966	29 Aug 1966	6 Sep 1966	Percent Change from Month Ago	Percent Change from Year Ago
Index for All Items <u>b/</u>	<u>160</u>	<u>211</u>	<u>206</u>	<u>215</u>	<u>211</u>	- 6	+ 81
Index for Food Items <u>b/</u>	<u>169</u>	<u>216</u>	<u>211</u>	<u>222</u>	<u>215</u>	- 8	+ 77
Of Which:							
Rice/Soc Nau (100 kg.)	800	1,450	1,400	1,350	1,300	- 10	+ 44
Pork Bellies (1 kg.)	70	100	85	85	80	- 47	+ 33
Fish/Ca Tre (1 kg.)	110	170	160	180	170	- 11	+127
Nuoc Mam (jar)	50	85	85	85	85	0	+ 70
Index for Non-Food Items <u>b/</u>	<u>124</u>	<u>190</u>	<u>189</u>	<u>191</u>	<u>196</u>	- 0.2	+ 93
Of Which:							
Charcoal (60 kg.)	440	600	590	620	660	+ 6	+ 74
Cigarettes (pack)	10	14	14	14	14	0	+ 40
White Calico (meter)	27	37	36	33	33	- 13	+ 43
Laundry Soap (1 kg.)	30	43	43	40	40	- 9	+ 90

a/ Data are from USAID sources.

b/ For all indexes, 1 January 1965 = 100.

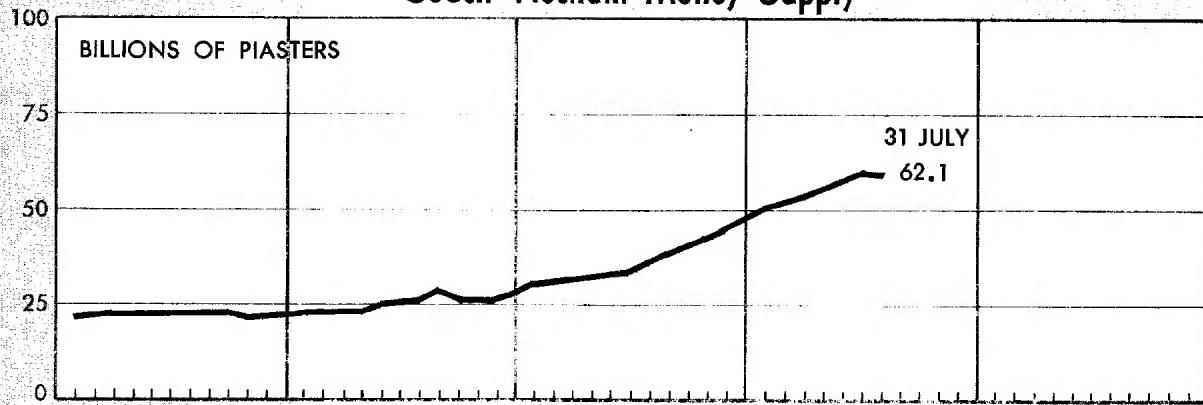


Saigon Cost of Living Index*
(For Working Class Family)

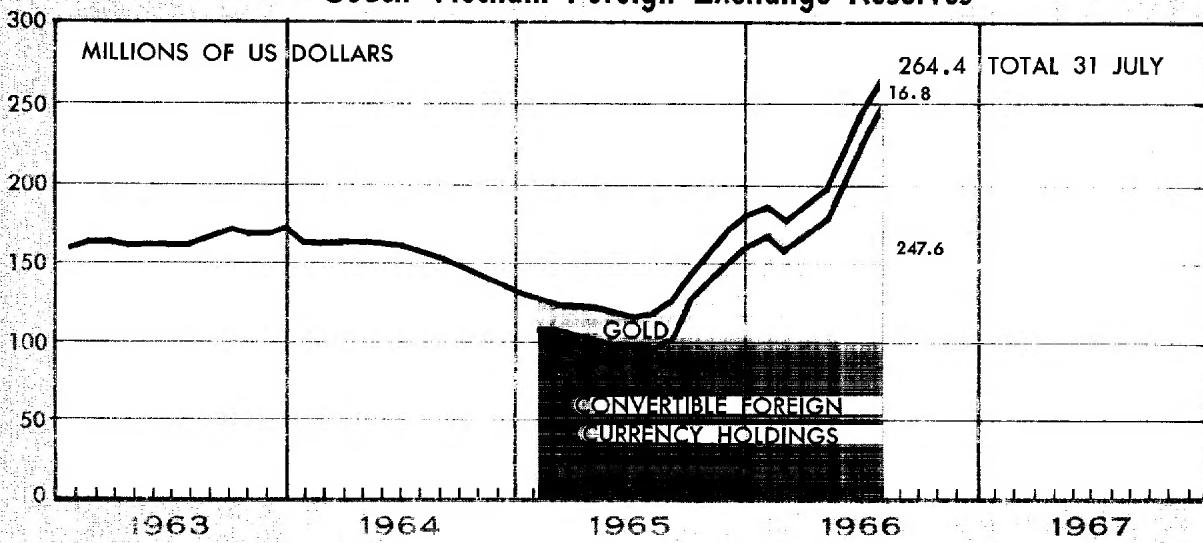


*Official GVN index

South Vietnam Money Supply



South Vietnam Foreign Exchange Reserves



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